AUDIT REPORT

NASA SETTLEMENT OF DCAA’S INCURRED COST AUDITS AT GODDARD SPACE FLIGHT CENTER

September 18, 2000

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Acronyms

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<th>Acronym</th>
<th>Description</th>
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<tr>
<td>ACO</td>
<td>Administrative Contracting Officer</td>
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<td>DCAA</td>
<td>Defense Contract Audit Agency</td>
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<td>DoD</td>
<td>Department of Defense</td>
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<td>FAR</td>
<td>Federal Acquisition Regulation</td>
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<td>FY</td>
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<td>GAO</td>
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The NASA Office of Inspector General has completed an audit of NASA Settlement of Defense Contract Audit Agency’s (DCAA’s) Incurred Cost Audits at Goddard Space Flight Center (Goddard). NASA policies and procedures for resolution and disposition of contract audit findings and recommendations comply with Office of Management and Budget (OMB) Circular A-50 requirements. However, the follow-up and settlement of DCAA’s incurred cost audits at Goddard can be improved. Specifically, we found the Goddard contract audit follow-up system did not include complete records of actions taken on findings and recommendations for 14 of 16 sampled DCAA audit reports for which the resolution and disposition authority had been delegated to the Department of Defense (DoD). As a result, Goddard procurement personnel may not be able to ensure that audit findings and recommendations were resolved in a timely manner and that the resolutions were in NASA’s best interest.

In addition, Goddard did not meet Federal Acquisition Regulation (FAR) guidelines on closing out 10 physically completed contracts. The average time awaiting closeout for the 10 contracts was about 55 months. Delays in contract closeout can result in excess unliquidated obligations that could be used for other NASA programs. In addition, the delays can directly affect the success of Government negotiations and result in increased workload for contractors and contracting officers.

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1 OMB Circular A-50, “Audit Followup,” requires all agencies, including NASA, to establish audit follow-up systems “to assure the prompt and proper resolution and implementation of audit recommendations.”
Background

NASA uses the services of other Federal agencies to perform audits of contractors, educational institutions, and nonprofit organizations receiving NASA grants and contract awards. In fiscal years (FY’s) 1997 and 1998, NASA spent $32 million ($16.5 million and $15.6 million, respectively) on contract audit services provided by the DCAA. Of the $32 million, NASA paid about $6 million for audit services performed for NASA contracts at Goddard.

To improve the effectiveness and efficiency of Government operations, the OMB issued Circular A-50, which addresses establishing audit follow-up systems. Resolution should occur within a maximum of 6 months after issuance of a final report, and corrective action should proceed as rapidly as possible. The Circular requires that the follow-up systems provide for a complete record of action taken on both monetary and nonmonetary findings and recommendations. Furthermore, the Circular establishes 11 standards that follow-up systems must meet, including assuring that “performance appraisals of appropriate officials reflect effectiveness in resolving and implementing audit recommendations.”

As part of its oversight duties, the NASA Headquarters Office of Procurement conducts surveys at NASA installations that address, in part, contract audit follow-up of reportable contract audit (RCA) reports.\textsuperscript{2}

We have completed audits of NASA’s Contract Audit Follow-up System at Marshall Space Flight Center (Marshall)\textsuperscript{3} and Johnson Space Center (Johnson).\textsuperscript{4} NASA management concurred with all the recommendations in the final audit reports and is taking corrective actions. Because of the prior audits, we limited our review at Goddard to the NASA follow-up process for DCAA incurred cost audits.

Recommendations

We recommended that the Associate Administrator for Procurement issue guidance to contracting officers on participating in final indirect cost negotiations for those contractors

\footnotesize{\bibitem{2} DCAA Contract Audit Manual 7640.1, Section 15-603.2, “Reporting Requirements,” defines reportable contract audit reports as: (1) reports containing findings and recommendations covering estimating system surveys, accounting and related internal control system reviews, defective pricing reviews and cost accounting standards matter; (2) reports covering operations audits, incurred costs, settlement of final indirect cost rates, final pricing submissions, termination settlement proposals and claims, if reported costs or rates questioned or unsupported/qualified equal $100,000 or more; and (3) reports on audit-determined final indirect cost rates when the auditor cannot reach an agreement with the contractor.

\bibitem{3} NASA OIG issued final audit report number IG-00-010, “NASA Contract Audit Follow-up System at Marshall Space Flight Center,” on March 6, 2000.

\bibitem{4} NASA OIG issued final audit report number IG-00-032, “NASA Contract Audit Follow-up System at Johnson Space Center,” on May 19, 2000.}
for which NASA has a major financial interest as required by NASA FAR Supplement 1842.705. In addition, the Director, Goddard Space Flight Center, should monitor the effectiveness of the actions planned and taken to improve Goddard’s efforts to close physically completed fixed-price contracts and contracts needing settlement of indirect cost rates within the time frames specified by the FAR.

During prior audits of the NASA Contract Audit Follow-up System at Marshall and Johnson, we recommended that NASA management take corrective actions regarding (1) communication with DoD administrative contracting officers who have been delegated activities on NASA contracts and (2) resolution of contract audit report recommendations within 6 months of issuance of the final audit report. Because management concurred with the recommended actions, we made no further recommendations on these issues in this report.

Management Response

Management generally concurred with the recommendations. NASA management will clarify NASA FAR Supplement 1842.705 for contracting officers on participating in final indirect cost rate negotiations for which NASA has a major financial interest and will discuss with DoD its role in this process. The Director, Goddard Space Flight Center, has taken corrective actions to reduce and better manage overaged unliquidated obligations and contract closeouts.

The actions planned or taken by management are responsive to the recommendations. Details on the status of the recommendation are in the recommendation section of the report.

[original signed by]
Roberta L. Gross

Enclosure
Final Report on Audit of NASA Settlement of DCAA's Incurred Cost Audits at Goddard Space Flight Center
FINAL REPORT
AUDIT OF NASA SETTLEMENT OF DCAA'S INCURRED COST AUDITS AT GODDARD SPACE FLIGHT CENTER
TO: H/Associate Administrator for Procurement
    100/Director, Goddard Space Flight Center

FROM: W/Assistant Inspector General for Auditing

SUBJECT: Final Report on Audit of NASA Settlement of DCAA's
         Incurred Cost Audits at Goddard Space Flight Center
         Assignment Number A0002900
         Report Number IG-00-046

The subject final report is provided for your information and use. Please refer to the Executive
Summary for the overall audit results. Our evaluation of your response is incorporated into the
body of the report. Management comments were responsive to the recommended corrective
actions. Management's actions are sufficient to close Recommendation 2 for reporting
purposes. Recommendation 1 will remain open for reporting purposes until corrective actions
are completed. Please notify us when actions have been completed on the recommendation,
including the extent of testing performed to ensure corrective actions are effective.

If you have questions concerning the report, please contact Mr. Lorne A. Dear, Program
Director, Procurement Audits, at (818) 354-3360; Mr. Tony A. Lawson, Audit Program
Manager, at (301) 286-6524; or Ms. Lydia C. Lin, Auditor-in-Charge, at (281) 483-0741.
We appreciate the courtesies extended to the audit staff. The final report distribution is in
Appendix G.

[original signed by]
Russell A. Rau

Enclosure
cc:
AO/Chief Information Officer
B/Chief Financial Officer
B/Comptroller
BF/Director, Financial Management Division
G/General Counsel
JM/Acting Director, Management Assessment Division
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NASA Settlement of DCAA's Incurred Cost Audits at Goddard Space Flight Center

Executive Summary

Background. NASA uses the services of other Federal agencies to perform audits of contractors, educational institutions, and nonprofit organizations receiving NASA grants and contract awards. In FY’s 1997 and 1998, NASA spent $32 million ($16.5 million and $15.6 million, respectively) on contract audit services provided by the DCAA. Of the $32 million, NASA paid about $6 million for audit services performed for NASA contracts at Goddard.

To improve the effectiveness and efficiency of Government operations, the OMB issued Circular A-50, which requires all agencies, including NASA, to establish audit follow-up systems “to assure the prompt and proper resolution and implementation of audit recommendations.” Resolution should occur within a maximum of 6 months after issuance of a final report, and corrective action should proceed as rapidly as possible. FAR Subpart 4 requires firm fixed-price contracts to be closed within 6 months after the date on which the contracting officer receives evidence of physical completion. The FAR subpart also requires contracts needing settlement of indirect cost rates to be closed within 36 months. The Circular requires that the follow-up systems provide for a complete record of action taken on both monetary and nonmonetary findings and recommendations. Furthermore, the Circular establishes 11 standards that follow-up systems must meet, including assuring that “performance appraisals of appropriate officials reflect effectiveness in resolving and implementing audit recommendations.”

As part of its oversight duties, the NASA Headquarters Office of Procurement conducts surveys at NASA installations that address, in part, contract audit follow-up of RCA reports.

We have completed audits of NASA’s Contract Audit Follow-up System at Marshall and Johnson. NASA management concurred with all the recommendations in the reports on those audits and is taking corrective actions. Because of the prior audits, we limited our review at Goddard to the NASA follow-up process for DCAA incurred cost audits.

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Resolution is the point at which the audit organization and agency management or contracting officials agree on action to be taken on reported findings and recommendations; or in the event of disagreement, resolution is the point at which the audit follow-up official determines the matter to be resolved.
Objectives. The overall objective was to evaluate the adequacy of NASA’s settlement of the DCAA’s incurred cost audits at Goddard. Additional details on the objectives, scope, and methodology are in Appendix A.

Results of Audit. NASA policies and procedures for resolution and disposition of contract audit findings and recommendations comply with OMB Circular A-50 requirements. However, the follow-up and settlement of DCAA’s incurred cost audits at Goddard can be improved.

- The system did not include complete records of action taken on findings and recommendations for 14 of 16 sampled DCAA audit reports for which the resolution and disposition authority had been delegated to the DoD. As a result, Goddard procurement personnel may not be able to ensure that audit findings and recommendations were resolved in a timely manner and that the resolutions were in NASA’s best interest (Finding A).

- Goddard did not meet FAR guidelines on closing out 10 physically completed contracts. Five of 23 Goddard contracts covered by the 16 sampled DCAA incurred cost audit reports were awaiting closeout. In addition, Goddard procurement personnel identified five additional contracts that were not delegated to DoD and were not covered by the sampled audit reports. The five additional contracts were also awaiting closeout. The average time awaiting closeout for all 10 contracts was about 55 months. Delays in contract closeout can result in excess unliquidated obligations that could be used for other NASA programs. In addition, the delays can directly affect the success of Government negotiations and result in increased workload for contractors and contracting officers (Finding B).

Recommendations. We recommended that the Associate Administrator for Procurement issue guidance to contracting officers on participating in final indirect cost negotiations for those contractors for which NASA has a major financial interest as required by NASA FAR Supplement 1842.705. In addition, the Director, Goddard Space Flight Center, should monitor the effectiveness of the actions planned and taken to improve Goddard’s efforts to close physically completed fixed-price contracts and contracts needing settlement of indirect cost rates within the time frames specified by the FAR.

During prior audits of the NASA Contract Audit Follow-up System at Marshall and Johnson, we recommended that NASA management take corrective actions regarding (1) communication with DoD administrative contracting officers who have been delegated activities on NASA contracts and (2) resolution of contract audit report recommendations within 6 months of

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6 FAR Subpart 4.804-4, “Physically completed contracts,” states that a contract is physically completed when (1) the contractor has completed the required deliveries and the Government has inspected and accepted the supplies; (2) the contractor has performed all services and the Government has accepted these services; and (3) all options, if any, have expired.
issuance of the final audit report. NASA management concurred with the recommended actions; therefore, we are making no other related recommendations on these issues.

Management's Response. Management generally concurred with the recommendations. NASA management will clarify NASA FAR Supplement 1842.705 for contracting officers on participating in final indirect cost rate negotiations for which NASA has a major financial interest, and will discuss with DoD their role in this process. The Director, Goddard Space Flight Center, has taken corrective actions to reduce and better manage overaged unliquidated obligations and contract closeout. The complete text of the response is in Appendix F.

Evaluation of Management's Response. Management's actions are responsive to both recommendations. We consider recommendation 2 dispositioned and closed for reporting purposes. We are monitoring recommendation 1 concerning the requirements to jointly participate in the DoD negotiations where NASA has a major financial interest.
Introduction

Policies and procedures concerning NASA contract audit follow-up systems are contained in NASA FAR Supplement 1842.7301\(^7\) and NASA Procedures and Guidelines (NPG) 1200.1.\(^8\) The policies and procedures require that NASA contract audit follow-up systems track all contract and OMB Circular A-133\(^9\) audits for which NASA has resolution and disposition authority and that audit recommendations be resolved as expeditiously as possible within 6 months of the issuance of the final audit report. NASA FAR Supplement 1842.7301 also requires that, when contract administration is delegated, NASA contracting officers should at least semiannually review and document in the contract files the status and resolution of significant audit findings.

DCAA usually performs incurred cost audits on a contractor-wide basis. This approach (see Appendix B) recognizes the efficiency of addressing the adequacy of management and financial systems and controls combined with transaction testing across all business activities as opposed to contract-by-contract audits. The primary objective for incurred cost audits is to determine whether the incurred costs are reasonable, applicable to the contract, and not prohibited by the contract, statute, or regulations.

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\(^8\) NASA issued NPG 1200.1, “Management Accountability and Control, Audit Liaison, and Audit Follow-up,” on October 8, 1997.

Findings and Recommendations

Finding A. Adequacy of Monitoring Incurred Cost Audits When NASA Delegated Resolution Authority

The Goddard contract audit follow-up system did not include complete records of action on incurred cost audit findings and recommendations for 14 of the 16 sampled DCAA audit reports for which NASA delegated resolution and disposition authority to DoD. Goddard procurement personnel did not (1) maintain adequate dialogue with the DoD administrative contracting officers (ACO’s) who have been delegated activities on NASA contracts, (2) document the status and resolution of significant audit findings in the contract files, or (3) participate jointly with DoD ACO’s in final overhead determination procedures as required by NASA FAR Supplement 1842.705. As a result, Goddard could not ensure that audit findings and recommendations were resolved in a timely manner and that recovered questioned costs were appropriately distributed to NASA contracts.

OMB, NASA, and FAR Guidance

OMB Circular A-50\(^\text{10}\) requires that agencies establish contract audit follow-up systems “to assure the prompt and proper resolution and implementation of audit recommendations.” The Circular requires follow-up systems to provide “complete records of action taken on both monetary and nonmonetary findings and recommendations.”

To fulfill the requirements of the Circular, NASA FAR Supplement 1842 requires NASA contracting officers to communicate with DoD ACO’s who have been delegated activities on NASA contracts. The NASA contracting officers are required to conduct a review of reportable contract audit reports under NASA cognizance, no less frequently than semiannually and to document in their contract files the status and disposition of significant DCAA audit findings.

In addition, FAR 42.705\(^\text{11}\) states that contracting officers of Federal agencies having significant dollar interest in a contractor’s final indirect cost rate proposal should be invited to participate in the negotiation and in the preliminary discussion of critical issues. To fulfill FAR requirements, NASA FAR Supplement 1842.705\(^\text{12}\) states that NASA's policy is to participate jointly with DoD for those companies for which NASA has a major financial interest.

\(^{10}\) OMB revised Circular A-50, “Audit Follow-up,” on September 29, 1982.
\(^{11}\) FAR 42.705, “Final Indirect Cost Rates,” sets forth contracting officer determination procedure.
\(^{12}\) NASA FAR Supplement 1842.705, “Final Indirect Cost Rates,” implemented FAR 42.705 requirements.
NASA Delegation of Resolution and Disposition Authority

NASA delegated to DoD the authority for resolution and disposition of the findings in the 16 reports reviewed (Appendix C lists the reports). However, Goddard procurement personnel generally did not monitor the status and resolutions of the report findings delegated to DoD ACO’s, did not always document the resolution of such reports in contract files, and were often unaware of DoD actions that affected their contracts for 14 of the 16 reports. Consequently, NASA could not ensure that audit findings and recommendations were resolved on a timely basis and that the resolutions were in NASA’s best interest. Further, NASA’s contract audit follow-up systems did not track the status of incurred cost audit reports DoD is responsible for resolving.

Questioned costs for seven DCAA reports totaled more than $10 million as illustrated below:

- Two reports on one contractor’s incurred costs included $11.6 million and $14 million, respectively, in questioned costs. The ACO sustained (recovered) $4.8 million and $9.5 million of the questioned costs, respectively. NASA’s share of the sustained questioned costs was $675,000 of the $4.8 million and $1.4 million of the $9.5 million. The Goddard contract file had no record of the recovered costs.

- Three reports on one contractor’s incurred costs for 1994, 1995, and 1996, identified questioned costs of $14 million, $10.2 million, and $14.6 million, respectively. The ACO sustained $3.3 million, $5 million, and $3.6 million respectively. NASA’s share of the recovered questioned costs was $52,000 of the $3.3 million, $429,000 of the $5 million, and $74,000 of the $3.6 million. The Goddard contract file had no record of the recovered costs.

In addition, questioned costs for 3 of the 16 DCAA reports were for contracts for which Goddard had a major financial interest. NASA’s share of the sustained questioned costs for each of the three reports was 47 percent or higher (see Appendix C). The percentage of sustained questioned costs generally represents an agency’s percentage of cost in the contractors’ indirect cost allocation base used to allocate costs between the Government and other contracts. In our opinion, such high percentages indicate a major financial interest. For example:

- One report had sustained questioned costs of $2.8 million and NASA’s share was $2.6 million (that is, 95 percent of the total). The questioned costs were related to Goddard contract NAS5-29500.

- One report had sustained questioned costs of $1.1 million and NASA’s share was $530,000 (that is, about 47 percent of the total). The questioned costs were related to Goddard contracts NAS5-30800 and NAS5-32631.
NASA delegated to DoD ACO’s the authority to resolve and disposition the audit findings. NASA Form 1430, “Letter of Contract Administration Delegation, General,” requires the DoD ACO’s, among other things, to (1) obtain DCAA audit reports as requested and submit the reports to the NASA contracting officer; (2) make secondary delegations as necessary and provide copies of the delegations to the NASA contracting officer; (3) provide immediate input to the NASA procurement office of significant program issues or problems; and (4) provide input to the monthly report that includes the contractor’s systems, significant findings related to these systems, and issues that could affect NASA contracts. For both of the reports discussed, we would expect the ACO to inform NASA of the basis for the resolutions granted and the allocations among NASA and other contracts. NASA contracting officers were not aware of the basis for the resolutions granted or the allocations.

**NASA Participation in Final Indirect Cost Rate Determination Procedures**

NASA did not participate jointly with DoD ACO in final indirect cost rate determination procedures. NASA contracting officers were not aware of the NASA FAR Supplement 1842.705 requirement, which states that NASA’s policy is to participate jointly with DoD for those companies for which NASA has a major financial interest. NASA contracting officers indicated that once the administrative function has been delegated to the ACO, the ACO is responsible to conduct the contract negotiation.

Although NASA’s policy is to optimize the use of contract administration services of other Government agencies, NASA contracting officers must fulfill their oversight responsibilities. Increased monitoring of DoD’s audit resolution activities would allow NASA to (1) determine the current status of all significant unresolved audits, (2) evaluate the appropriateness of the audit resolution actions taken by DoD personnel, (3) ensure that recovered questioned costs were appropriately distributed to NASA contracts, and (4) better understand the quality of their contractors’ business operations.

**Corrective Actions To Be Taken by Management**

We identified similar findings during our audits of the NASA Contract Audit Follow-up System at Marshall and Johnson (Appendix D summarizes prior coverage) and made a recommendation to the Associate Administrator for Procurement. The Associate Administrator for Procurement concurred with the finding and agreed to reemphasize to all contracting officers the NASA FAR Supplement 1842.7301(d) (3) requirements to (1) maintain a dialogue with DoD ACO’s who have been delegated resolution authority on NASA contracts and (2) conduct semiannual reviews and document the status and resolution of audit findings. Further, contracting officers will require that delegated DoD ACO’s provide NASA with detailed information on the resolution and disposition status of DCAA audit findings and recommendations.
NASA has since issued Procurement Information Circular 00-06 and a letter to the Team Leader, Procurement Management Survey Team, to include the "Audit Follow-up Process" in all future procurement surveys. Circular 00-06 reemphasizes that it is important for contracting officers to maintain a dialogue with the DoD ACO and to document the status and disposition of significant audit findings accordingly in the contract file. Further, the Agency has revised NASA Form 1430 to require the DoD ACO to specifically furnish to NASA detailed information on DCAA audit reports. Therefore, we are making no other recommendation for corrective action on this issue.

Recommendation, Management's Comments, and Evaluation of Response

1. The Associate Administrator for Procurement should issue guidance to contracting officers on participating in final indirect cost rate negotiations for those contractors for which NASA has a major financial interest as required by NASA FAR Supplement 1842.705.

Management's Response. Concur with intent. Management did not concur with the specific method recommended. The Associate Administrator for Procurement will (1) clarify to all Center procurement personnel the requirement for NASA to jointly participate in final indirect rate negotiations with DoD ACO’s where NASA has a major financial interest, as required by NASA FAR Supplement 1842.705, and (2) discuss with DoD management its role in this process in order to ensure that DoD ACO’s are complying with the FAR.

Evaluation of Management's Response. The actions planned by management are responsive to the recommendation. We consider Recommendation 1 resolved but undispositioned and open until the agreed-to actions are completed.
Finding B. Timeliness in Closing Contracts after Physical Completion

Goddard has not met FAR guidelines on closing out 10 contracts (see Appendix E) after they were physically completed. This occurred for various reasons including Goddard's large closeout workload, decentralization of the contract closeout function, low priority of closeout tasks, and contracts being litigated. As a result, contracts awaiting closeout encumbered unliquidated obligations that could be used for other NASA programs. Delays can increase the administrative burden on contractors and contracting officers and can weaken the Government’s negotiating position in cases of employee turnover or other loss of first-hand knowledge of contractor performance.

Federal Acquisition Regulation

FAR Subpart 4 sets time standards for closing out contract files as follows:

- Files for firm-fixed-price contracts, other than those using simplified acquisition procedures, should be closed within 6 months after the date on which the contracting officer receives evidence of physical completion.

- Files for contracts requiring settlement of indirect rates should be closed within 36 months of the month in which the contracting officer receives evidence of physical completion.

- Files for all other contracts should be closed within 20 months of the month in which the contracting officer receives evidence of physical completion.

In addition, FAR Subpart 4 states that quick closeout procedures should be used, when appropriate, to reduce administrative costs and to enable deobligation of excess funds.

Large Closeout Workload and Decentralized Closeout Function

Goddard has more contracts in closeout than any other NASA center (that is, about 53 percent of the total contract closeouts in the Agency). Goddard’s large closeout workload and decentralized closeout function has contributed to contracting officers not meeting FAR guidelines on closing out 10 physically completed contracts (see Appendix E for contract details). A Goddard contract closing administrator indicated that 150 contracts are awaiting closeout.

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13 FAR 2.1, “Definitions,” defines “simplified acquisition procedures,” as the methods prescribed in FAR Part 13 for making purchases of supplies and services not to exceed $100,000. The purpose of the methods includes reducing administrative costs and promoting efficiency and economy in contracting.

14 Many of Goddard’s branch-level procurement offices have a contract closing administrator who is responsible for performing various tasks to help the contracting officer promptly close out contracts.
The contract closeout function has been decentralized, and the contract closing administrators were limited in the amount of effort they could devote to the closeout task. From 1974 until June 1997, a centralized contract closeout office processed all contract closeouts. Since June 1997, each procurement branch has been responsible for complete contract administration. Procurement supervisors routinely assign a wide variety of tasks on active contracts to contract closing administrators and have considered closeout tasks a low priority in comparison to competing tasks.

The 10 contracts physically completed but not closed out are described below:

- One cost-plus-award-fee contract was physically completed in January 1993. The $23 million contract was for Gamma Ray Remote Sensing Spectrum. The closing administrator resumed closeout responsibility after the decentralization of the closeout function. As a result, the contracting officer did not request the final DCAA audit until June 1997, 4 years after the contract was physically completed. DCAA completed the final audit in September 1999, 2 years after the request. As of April 2000, the contract is still awaiting closeout.

- Three contracts that were physically completed in 1995 and 1996 are still awaiting closeout. The delay occurred because of the decentralized closeout function and limited time closing administrators could devote to closeout tasks. Two contracts have unliquidated obligations of $33,000 and $77,000. The remaining contract has no unliquidated obligations.

- One fixed-price contract was physically completed in December 1993. The $81 million contract was for a National Oceanic and Atmospheric Administration project. The delay of contract closeout was due to the contractor’s dispute, which was settled on April 6, 2000. The closing administrator requested DCAA’s contract audit closing statement on April 7, 2000. DCAA has not submitted a contract audit closing statement to NASA because it is waiting for the contractor to submit the final incurred cost proposal.

- Five additional contracts that were not from our sample reports were physically completed from 1995 through 1997. Three contracts were closed out from 47 to 60 months after they were physically completed, and two contracts are awaiting closeout.

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15 A contractor initiated dispute over about $900,000 in reimbursable costs from NASA as a result of the failure of one of the satellites.
NASA Procurement Management Survey

NASA conducted a procurement management survey at Goddard during November and December 1998. The survey team identified two areas of concern on closing out contracts:

- Goddard did not use a system or database to track the entire Goddard closeout inventory. The Procurement Officer should establish a closeout status reporting system that monitors the closeout function and measures performance. The system must be comprehensive and include all award instruments and must be capable of generating information on closeout performance at the Center.

- Goddard had no comprehensive plan to monitor and manage the closeout workload. The Procurement Officer should require the establishment of formal closeout policies and standards as well as a comprehensive plan to address the closeout issues in the decentralized environment.

Contract Closeout Process Improvements

We discussed with Goddard the following management actions taken to improve the contract closeout process:

- As of the end of 1998, Goddard had (1) developed a monthly Closeout Inventory Report for tracking and measuring closeout performance, (2) implemented a plan to address the closeout issues and unliquidated obligations, and (3) developed a closeout manual for Goddard procurement personnel.

- In January 1999, Goddard’s Center Director submitted a plan to the Associate Administrator for Earth Science to substantially reduce or eliminate Goddard’s unliquidated obligations. The plan had four major components: (1) a Goddard Task Team to review progress, solve problems and ensure application of closeout techniques; (2) Office of Procurement intervention with DoD elements (including DCAA) to provide an Agency-wide focus to monitor progress on all of NASA’s major cost reimbursement contracts awaiting closeout; (3) an increase in procurement staffing; and (4) additional Goddard and Headquarters Financial Management Division resources.

- The Associate Administrator for Procurement issued to NASA’s Administrator a Contract Management Status report, which stated that Goddard’s unliquidated obligations and closeouts improved from “needs to do better” to “doing okay” during the semi-annual period ending March 31, 2000.

- Goddard is currently evaluating the use of an Agency-wide contract to assist with contract closeouts. NASA Ames Research Center would administer the contract.
Maintaining Unliquidated Obligations

Goddard had unliquidated obligations on many of the contracts awaiting closeout. Appendix E shows the amount of unliquidated obligations for each of the 10 contracts. We identified another contract\(^{16}\) during our review that has not exceeded the 36-month FAR requirement (it has been 32 months) since contract completion, but has $436,376 of unliquidated obligations.

Goddard contracting officers stated that DCAA incurred cost audit findings are generally settled just prior to closing out contracts. DCAA incurred cost findings and DoD ACO’s sustained questioned costs amounts would not be reflected in Goddard’s contract files until contract closeout. In addition, any funds due to NASA would not be recovered until contracts are closed out.

Recommendation, Management's Comments, and Evaluation of Response

2. The Director, Goddard Space Flight Center, should monitor the effectiveness of the actions planned and taken to improve Goddard’s efforts (1) to close firm-fixed-price contracts within 6 months after receipt of evidence that the contract is physically completed and (2) to close contracts needing settlement of indirect cost rates within 36 months after receipt of evidence that the contract is physically completed as required by the FAR.

Management's Response. Concur. The Director, Goddard Space Flight Center submitted a plan on January 29, 1999, to the Associate Administrator for Earth Science to substantially reduce overaged, unliquidated obligations and, therefore, decrease the closeout inventory. Specifically, Goddard instituted the following measures:

- A monthly closeout inventory is provided to Procurement Managers to aid them in the management of their closeout activities.
- A task team was assembled to periodically assess our progress and evaluate improved methods to expedite the closeout process.
- Procurement professionals responsible for closeout activities now have a manual providing guidance on the documentation and steps necessary for the timely disposition of physically complete files.
- Goddard is evaluating the use of NASA’s Agency-wide closeout contract to assist with Goddard’s closeout activities.

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\(^{16}\) Contract NAS5-29370 with Ball Aerospace was completed September 15, 1997, and has an unliquidated obligations amount of $436,376.
• The Division Chief for Procurement Operations reports monthly during Goddard’s Executive Council and Headquarters Institutional General Management Status Review on the progress of unliquidated obligations and closeout activities.

**Evaluation of Management's Response.** The actions taken by management are responsive to the recommendation. We consider the recommendation dispositioned and closed for reporting purposes.
Appendix A. Objectives, Scope, and Methodology

Objectives

The overall objective was to evaluate the adequacy of NASA’s settlement of the DCAA incurred cost audits at Goddard Space Flight Center. Specifically, we determined whether:

- NASA contracting officers appropriately settled the incurred cost audits in a timely manner and in accordance with the FAR; NASA FAR Supplement; and OMB Circular A-50, "Audit Follow Up," September 29, 1982, when NASA has final indirect cost rate determination authority.
- NASA has adequately monitored DCAA audits to be resolved by the Department of Defense (DoD) and has jointly participated in the negotiation/settlement process when DoD has final indirect cost rate determination authority.

We did not assess the adequacy of the administrative contracting officers’ (ACO’s) resolutions of audit findings.

Scope and Methodology

We performed the detailed audit work at Goddard Space Flight Center, Greenbelt, Maryland. We reviewed OMB Circular A-50 requirements; NASA’s policies, including NASA FAR Supplement 1842.705, Procurement Notice 97-2, and NPG 1200.1; and other agencies’ policies referenced in NASA guidelines such as DoD Directive 7640.2\(^{17}\) and the DCAA Contract Audit Manual. We interviewed Goddard and DoD contracting officers to determine whether audit findings and recommendations were resolved and dispositioned promptly and effectively.

To determine whether NASA’s settlement of DCAA’s incurred cost activities ensure the prompt and effective resolution and disposition of incurred cost audit recommendations, we selected the DCAA audit reports containing findings and reviewed the audit recommendations with the applicable Goddard contracting officers. We reviewed all 7 reports with more than $10 million in questioned costs each and randomly selected 10\(^{18}\) out of 164 DCAA incurred audit reports with findings that were issued during FY’s 1997 and 1998. We also performed limited reviews (1) of 5 additional contracts for which NASA retained resolution authority and that were physically completed and (2) of 13 of the 20 audits that were included in the DCAA June 1997 billing data to Goddard. We reviewed the 13 reports to determine whether NASA should have categorized the reports as reportable contract audit reports.

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18 We selected 17 DCAA audit reports for review. NASA did not delegate resolution and disposition authority to DoD for 1 of the 10 randomly selected reports. Therefore, we evaluated 16 audit reports for which NASA delegated resolution and disposition authority to DoD.
Appendix A

FY’s 1997 and 1998 Audit Reports Reviewed

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Number of Audits With Questioned Costs</th>
<th>Audits With More Than $10 Million Each in Questioned Costs</th>
<th>Number of Other Randomly Selected Audits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>89</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>1998</td>
<td>82</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Total Reviewed</td>
<td></td>
<td>7</td>
<td>10</td>
</tr>
</tbody>
</table>

Management Controls Reviewed

We examined Goddard policies and procedures concerning the settlement of DCAA’s incurred cost audit process. We also reviewed Goddard practices to track contract audit reports and to follow up on audit recommendations for timely resolution and disposition where DoD has final indirect rate determination.

We considered management policies and procedures to be adequate. However, controls need to be strengthened to ensure that contracting officers maintain a dialogue with the DoD ACO’s (Finding A) and promptly close out within 36 months contracts that were physically completed as required by FAR Subpart 4 (Finding B).

Audit Field Work

We performed audit field work from April through June 2000. We conducted the audit in accordance with generally accepted government auditing standards.
Appendix B. Incurred Cost Audits

DCAA Contract Audit Manual, Volume 1, Chapter 6-102.1; July 1999, describes the incurred cost audit objectives and approach as:

The auditor’s primary objective is to examine the contractor’s cost representation, in whatever form they may be presented (such as interim and final public vouchers, progress payments, incurred cost submissions, termination claims and final overhead claims), and to express an opinion as to whether such incurred costs are reasonable, applicable to the contract, determined under generally accepted accounting principles and cost accounting standards applicable in the circumstances, and not prohibited by the contract, by statute or regulation, or by previous agreement with, or decision of, the contracting officer. In addition, the auditor must determine whether the accounting system remains adequate for subsequent cost determinations, which may be required for current or future contracts. The discovery of fraud or other unlawful activity is not the primary audit objective; however, the audit work should be designed to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objective. If illegal activity is suspected, the circumstances should be reported in accordance with 4-700.

Audit Approach

a. Incurred cost audits are usually performed on a contractor-wide basis. This approach recognizes the efficiency of addressing the adequacy of management and financial systems and controls combined with transaction testing across all business activities as opposed to contract-by-contract audits. Only in certain low-risk situations would DCAA audit individual contracts, such as an audit of a small-dollar contract at a multi-million dollar corporation where the small contract represented the company’s only business with the government.

b. For major contractors and contractors with significant negotiated firm-fixed price contracts, reviews of relevant accounting and management systems will be performed on a cyclical basis and form the foundation for determining the nature and extent of transaction testing necessary on individual incurred cost audits. See Chapter 5 for guidance on reviews of contractor's internal controls.

c. For non-major contractors, separate audits and reports on individual contractor accounting and management systems may not be necessary. An understanding of the contractor's internal control structure may be gained at the time of the final overhead audit or during individual contract audits. The auditor's understanding of the internal control structure gained from these audits should be documented in the permanent file. (See 5-111 for further guidance on reviewing internal controls at nonmajor contractors.)

d. Regardless of the audit approach, in all audits emphasis will be on determining the overall acceptability of the contractor's claimed costs with respect to (1) reasonableness of nature and amount; (2) allocability and capability of measurement by the application of duly promulgated Cost Accounting Standards and generally accepted accounting principles and practices appropriate to the particular circumstances; and (3) compliance with applicable cost limitations or exclusions as stated in the contract or the FAR.
### Appendix C. Audit Reports for Which NASA Delegated Resolution and Disposition Authority ($ in $000)

<table>
<thead>
<tr>
<th>DCAA Report Number</th>
<th>Date of Report</th>
<th>Contract</th>
<th>Questioned Costs</th>
<th>Sustained Cost</th>
<th>NASA’s Share</th>
<th>Resolution Date</th>
<th>Disposition Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>3131-97K10150001</td>
<td>09/25/97</td>
<td>NAS5-29360 NAS5-26836 NAS5-30689</td>
<td>$13,879</td>
<td>$3,320</td>
<td>$52</td>
<td>3/18/98</td>
<td>3/18/98</td>
</tr>
<tr>
<td>4901-95P10150001</td>
<td>09/27/96</td>
<td>NAS5-26555 NAS5-31459 NAS5-32626</td>
<td>$11,611</td>
<td>$4,819</td>
<td>$675</td>
<td>06/30/97</td>
<td>06/30/97</td>
</tr>
<tr>
<td>3131-97K10150002</td>
<td>03/27/98</td>
<td>NAS5-29360 NAS5-26836 NAS5-30689</td>
<td>$10,244</td>
<td>$4,966</td>
<td>$429</td>
<td>06/04/99</td>
<td>06/04/99</td>
</tr>
<tr>
<td>3131-97K10150003</td>
<td>06/25/98</td>
<td>NAS5-29360 NAS5-26836 NAS5-30689</td>
<td>$14,561</td>
<td>$3,564</td>
<td>$74</td>
<td>12/31/99</td>
<td>12/31/99</td>
</tr>
<tr>
<td>4901-96P10150001</td>
<td>02/27/98</td>
<td>NAS5-26555 NAS5-31459 NAS5-32626</td>
<td>$13,889</td>
<td>$9,469</td>
<td>$1,420</td>
<td>12/06/99</td>
<td>12/06/99</td>
</tr>
<tr>
<td>4901-97K10150003</td>
<td>11/13/97</td>
<td>NAG5-3077 NAG5-3102 NAG5-30386 NCCS-95</td>
<td>$14,354</td>
<td>$6,495</td>
<td>$637</td>
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<td>6631-97L10150001</td>
<td>06/25/98</td>
<td>1</td>
<td>$27,757</td>
<td>Not Resolved</td>
<td>Not Dispositioned</td>
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</tr>
<tr>
<td>4291-97J10150001</td>
<td>09/30/97</td>
<td>NAS5-29500</td>
<td>$4,430</td>
<td>$2,779</td>
<td>$2,640</td>
<td>12/16/97</td>
<td>03/26/98</td>
</tr>
<tr>
<td>4901-97V10250004</td>
<td>06/09/97</td>
<td>3</td>
<td>$369</td>
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<td>07/02/97</td>
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<tr>
<td>2211-97B10150230</td>
<td>06/24/97</td>
<td>NCCS-82 NCCS-34</td>
<td>$435</td>
<td>$435</td>
<td>$13</td>
<td>06/24/97</td>
<td>06/24/97</td>
</tr>
<tr>
<td>3121-98H10150002</td>
<td>09/30/98</td>
<td>NAS5-31808 NAS5-20370 NAS5-32864</td>
<td>$1,044</td>
<td>$-0-</td>
<td>$-0-</td>
<td>07/21/99</td>
<td>08/27/99</td>
</tr>
<tr>
<td>6501-97U10250201</td>
<td>04/29/97</td>
<td>NAS5-28000 NAS5-28666</td>
<td>$1,141</td>
<td>$1,507</td>
<td>$226</td>
<td>09/23/97</td>
<td>09/23/97</td>
</tr>
<tr>
<td>3521-98S10250001</td>
<td>07/31/98</td>
<td>NAG5-1981 NAG5-31724 NAG5-2258</td>
<td>$2,046</td>
<td>$2,046</td>
<td>$266</td>
<td>07/31/98</td>
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<tr>
<td>6311-97C10250479</td>
<td>12/31/96</td>
<td>NAS5-32513</td>
<td>$5</td>
<td>$5</td>
<td>$2</td>
<td>01/06/97</td>
<td>01/06/97</td>
</tr>
<tr>
<td>4281-97B10150009</td>
<td>01/30/98</td>
<td>NAS5-32811</td>
<td>$16</td>
<td>$16</td>
<td>$12</td>
<td>01/30/98</td>
<td>01/30/98</td>
</tr>
<tr>
<td>4361-96B10150002</td>
<td>04/30/97</td>
<td>NAS5-30800 NAS5-32631</td>
<td>$3,016</td>
<td>$1,128</td>
<td>$530</td>
<td>12/23/98</td>
<td>12/23/98</td>
</tr>
</tbody>
</table>

1 The report was for the contractor’s Corporate Home Office Expenses and Facilities Capital. The report did not identify a specific Goddard contract.
2 NASA’s share of sustained costs for this report represented 95 percent of the total sustained costs.
3 The ACO made a decision to apply questioned costs to contractor’s forward pricing rates. The report did not identify a specific Goddard contract.
4 NASA’s share of sustained costs for this report represented 75 percent of the total sustained costs.
5 NASA’s share of sustained costs for this report represented 47 percent of the total sustained costs.
Appendix D. Summary of Prior Coverage

The NASA Office of Inspector General (OIG), DoD Office of Inspector General, and the General Accounting Office (GAO) have issued reports relating to the use of audit services provided by DCAA and to NASA’s audit follow-up process. The reports are summarized below. (Copies of the NASA OIG reports are available at www.hq.nasa.gov/office/oig/hq/issuedaudits.html.)

NASA

“NASA Contract Audit Follow-up System at Johnson Space Center,” Report Number IG-00-032, May 19, 2000. The system did not include complete records of action taken on findings and recommendations for which resolution and disposition authority had been delegated to DoD ACO. As a result, Johnson procurement personnel could not ensure that audit findings and recommendations were resolved in a timely manner and that the resolutions were in NASA’s best interest. We identified a similar finding during our audit of the NASA Contract Audit Follow-up System at Marshall. Therefore, we did not make a recommendation for corrective action on this issue. Also, Johnson procurement personnel did not track and report certain reportable contract audit reports and did not resolve or disposition reports’ findings and recommendations within 6 months after report issuance pursuant to OMB Circular A-50. Consequently, audit findings were not resolved in a timely fashion, and NASA funds that should have been disallowed, withheld, or reduced could not be reallocated to other NASA programs. Management concurred with the two recommendations and issued Procurement Information Circular (PIC) 00-06 and a letter to the Team Leader, Procurement Management Survey Team, to include the “Audit Follow-up Process” in all future procurement surveys.

“NASA Contract Audit Follow-up System at Marshall Space Flight Center,” Report Number IG-00-010, March 6, 2000. The system did not include complete records of action taken on findings and recommendations for which resolution and disposition authority had been delegated to DoD ACO. As a result, Marshall procurement personnel could not ensure that audit findings and recommendations were resolved in a timely manner and that the resolutions were in NASA’s best interest. Also, Marshall procurement personnel did not track and report certain reportable contract audit reports and did not resolve or disposition reports’ findings and recommendations within 6 months after report issuance pursuant to OMB Circular A-50. Consequently, audit findings were not resolved in a timely fashion and NASA funds that should have been disallowed, withheld, or reduced could not be reallocated to other NASA programs. Management concurred with the four recommendations and issued Procurement Information Circular (PIC) 00-06 and a letter to the Team Leader, Procurement Management Survey Team, to include the “Audit Follow-up Process” in all future procurement surveys.
“Review of NASA’s Use of Audit Services Provided by the Defense Contract Audit Agency,” Report Number P&A-98-001, September 30, 1998. NASA needs to improve its oversight of the use, benefits, and effectiveness of DCAA services. Also, NASA’s audit follow-up system needs improvement to ensure that all reports, including those sent to DoD for follow-up and resolution, are properly accounted for and resolved. This condition occurred because NASA tracked only reportable DCAA audit reports, the Centers did not have a centralized point to receive and track audit reports, and NASA did not monitor the status of DCAA audit reports sent to DoD for follow-up and resolution. The OIG made six recommendations to NASA. Management partially concurred with the recommendations and plans to coordinate on information available from DCAA to improve NASA’s oversight of the use of DCAA services. However, procurement management believes the present systems at NASA Headquarters and its Centers are sufficient for tracking DCAA workload and reports.

“NASA Audit Follow-up Process: HQ Center,” Report Number HQ-94-009, May 26, 1994. NASA did not have an effective follow-up system to closely monitor contract audits and ensure timely and complete resolution. This occurred because NASA Headquarters procurement officials did not have an active role in routinely monitoring actions taken on the reports; instead procurement officials relied on the individual contracting officer to resolve and implement the audit recommendations. Also, the procurement and contracting officers at the Centers did not have clear and formal performance standards to promote effective contract audit follow-up. The NASA Contract Pricing and Finance Division concurred with the OIG recommendation to participate in the resolution and disposition process at the Center procurement offices and to include contract audit follow-up standards in the contracting officers’ performance plans.

DoD Inspector General

“The Air Force Contract Audit Follow-up System,” Report Number 00-003, October 4, 1999. The Air Force contracting officers experienced delays in settling contract audit reports. As a result, contracting officers sustained a significantly lower percentage of questioned costs. Also, contracting officers did not issue demand letters on defective pricing settlements in contract overpayments and interest. Consequently, overpayments and associated interest were not collected in a timely manner in all cases. The DoD Inspector General made two recommendations; however, the Air Force did not comment on the draft report and was requested to provide comments on the final report.

“Settlement of Contractor Incurred Indirect Cost Audits,” Report Number 99-057, December 21, 1998. The Navy and Defense Contract Management Command did not maintain and report accurate contract audit follow-up data. As a result, component management was not able to effectively determine whether their contract audit follow-up systems were adequate and resulted in timely and appropriate disposition of audit reports. The DoD Inspector General made one recommendation; the Navy concurred and took corrective
actions. The Defense Logistics Agency partially concurred and will issue a letter to the Contract Audit Follow-up monitors addressing this concern.

“Defense Contract Audit Agency Audits of Indirect Costs at Major Contractors,” Report Number PO 98-6-016, August 6, 1998. DCAA did not always perform sufficient transaction testing in conjunction with the internal control system review, and those reviews can be performed less frequently than every 3 years. Therefore, the internal control review results that DCAA relies on to assess audit risk may be outdated and inaccurate. Also, DCAA audits of indirect costs for allowability, allocability, and reasonableness often did not provide a sufficient in-depth analysis to conclude that the costs were acceptable for reimbursement. The audit procedures used for selecting or sampling transactions for review were frequently not the most effective means to review indirect costs. Consequently, DoD may be paying contractors for costs that should not or need not be reimbursed, thereby increasing the overall cost for DoD programs. The DCAA nonconcurred with DoD’s recommendation, however, management did agree that the internal control system review of indirect costs should be completed by the end of FY 1998 for all major contractor entities.

GAO

“NASA Contract Management: Improving the Use of DCAA’s Auditing Services,” Report Number GAO/NSIAD-94-229, September 30, 1994. The GAO raised many concerns related to NASA contractors’ unallowable cost claims, the status of contractors’ business systems, NASA’s involvement in DCAA’s audit planning process, timeliness of contract closeout, and contract audit tracking and follow-up systems. The GAO made six recommendations. Two of the recommendations dealt with NASA’s untimely tracking and following up on contract audit reports, monitoring audit findings and recommendations that are resolved by DoD ACO’s, and documenting the status and disposition of the audit findings in contract files. NASA management agreed that its audit tracking and reporting systems need improving, but was concerned that the GAO recommended that NASA track the status of audit reports that DoD also tracked and was responsible for resolving. The GAO’s response was: “We do not want NASA to duplicate DoD’s work. Our point is that NASA should understand and evaluate the adequacy of the service it is receiving in this area.”
Appendix E. Contracts Physically Completed and in Closeout

<table>
<thead>
<tr>
<th>Contract Number</th>
<th>Contractor</th>
<th>Contract Value (in $000)</th>
<th>Contract Type</th>
<th>Completion Date</th>
<th>Months After Completion*</th>
<th>Unliquidated Obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAS5-29360</td>
<td>Lockheed Martin Corporation/Astronautics</td>
<td>$22,912</td>
<td>Cost</td>
<td>1/31/93</td>
<td>88</td>
<td>-0-</td>
</tr>
<tr>
<td>NAS5-31459</td>
<td>California Institute of Technology</td>
<td>$7,305</td>
<td>Cost</td>
<td>9/30/95</td>
<td>56</td>
<td>-0-</td>
</tr>
<tr>
<td>NAS5-30386</td>
<td>Stanford University</td>
<td>$59,491</td>
<td>Cost</td>
<td>3/31/96</td>
<td>49</td>
<td>$33,000</td>
</tr>
<tr>
<td>NAS5-28000</td>
<td>Lockheed Martin Corporation/Astrospace</td>
<td>$80,600</td>
<td>Fixed Price</td>
<td>12/31/93</td>
<td>77</td>
<td>-0-</td>
</tr>
<tr>
<td>NAS5-32602</td>
<td>Ogden Logistics Services</td>
<td>$17,786</td>
<td>Cost</td>
<td>5/21/96</td>
<td>48</td>
<td>$77,000</td>
</tr>
<tr>
<td>NAS5-32619</td>
<td>Computer Sciences Corporation</td>
<td>$ 69</td>
<td>Cost</td>
<td>6/4/96</td>
<td>47</td>
<td>-0-</td>
</tr>
<tr>
<td>NAS5-32608</td>
<td>Lockheed Martin Corporation/Space</td>
<td>$ 32</td>
<td>Cost</td>
<td>5/2/95</td>
<td>60</td>
<td>-0-</td>
</tr>
<tr>
<td>NAS5-32363</td>
<td>Aerodyne Research Inc.</td>
<td>$387</td>
<td>Cost</td>
<td>5/16/97</td>
<td>36</td>
<td>$4,197</td>
</tr>
<tr>
<td>NAS5-32357</td>
<td>LNK Corporation</td>
<td>$ 90</td>
<td>Cost</td>
<td>4/18/97</td>
<td>37</td>
<td>$1,508</td>
</tr>
<tr>
<td>NAS5-32694</td>
<td>Science Application International Corporation</td>
<td>$368</td>
<td>Cost</td>
<td>3/31/96</td>
<td>49</td>
<td>-0-</td>
</tr>
<tr>
<td><strong>Average Months After Completion</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*As of May 2000, we identified 10 contracts physically completed; however, closeout has not yet occurred. The months after completion column shows the time from contract completion date to our June 2000 field work completion date. We rounded the time as appropriate.
Appendix F. Management’s Response

TO:    WI/Assistant Inspector General for Auditing
FROM:  HK/Director, Contract Management Division

Enclosed is our response to the subject report dated August 11, 2000.

Please call Joe LeCren at (202) 358-0444 or Jack Horvath at (202) 358-0456 if you have any questions or need further coordination on this matter.

S. Scott Thompson

Enclosure

Cc: GSFC/J. Clark
    IG JPL-NMO/L. Dear
    JM/M. Team
Appendix F

Headquarters Office of Procurement

Response To

Office of Inspector General (OIG)

Draft Report Assignment Number A0002900

Dated August 11, 2000

NASA's Settlement of DCAA's Incurred Cost Audits at Goddard Space Flight Center

Date: SEP. 05 2000

Enclosure
Appendix F

Code H Response to OIG
8/11/00 Draft Report,
A0002900
Page 2

General Comments:

The findings that form the basis of this report were derived from a sample of 16 DCAA audit reports and the associated contract files. The OIG’s report leads the reader to believe that the findings are prevalent in all contract situations at Goddard. Since Goddard has approximately 700 active contracts at any given time, a sample size of 16 raises a question of validity concerning the OIG’s overarching conclusions. The report, in our opinion, unfairly portrays an overall unfavorable performance. There is little or no acknowledgement of instances where Goddard procurement personnel have properly performed their responsibilities on incurred cost audits, determinations of final indirect rates, or contract closeout.

Finding A: Adequacy of Monitoring Incurred Cost Audits When NASA Delegated Resolution Authority – Page 2

First paragraph states: “Goddard procurement personnel did not...(3) participate jointly with DoD ACO’s in final overhead determination procedures as required by NASA FAR Supplement 1842.705. NFS 1842.705-1 (a)(i) states, “Since many NASA contractors are under DoD’s final overhead rate determination procedure, NASA’s policy is to participate jointly with DoD for those companies where NASA has a major financial interest...” During this audit, the auditor did not request information documenting the circumstances where Goddard personnel have participated jointly with DoD in the determination of final indirect cost rates. Once again, the report’s conclusions are based on only the 16 contracts reviewed. There was some question as to whether DCAA provided sufficient information on all 16 audit reports. It was not confirmed that Goddard had a major financial interest, and that therefore GSFC should have participated in the determinations. Absent that information, the statement that “Goddard procurement personnel did not...” appears to be an overly-generalized conclusion unsupported by sufficient facts.
Finding B: Timeliness in Closing Contracts after Physical Completion – Page 6

Contract closeout and unliquidated obligations were not originally identified as objectives of this audit. The original objective of this audit was “to determine whether contracting officers at the Goddard Space Flight Center have adequately settled incurred cost audits performed by DCAA.” Neither the Headquarters nor Goddard focal points were notified that closeouts and unliquidated obligations would be addressed until after the OIG auditor began drafting the report. While the report acknowledges the steps taken since 1998 to improve GSFC’s performance in these areas, we were not given sufficient opportunity during the field work period to provide information that would help the auditor fairly portray the magnitude of this challenge.

OIG Recommendation 1:

The Associate Administrator for Procurement should issue guidance to contracting officers on participating in final indirect cost rate negotiations for those contractors for which NASA has a major financial interest as required by NASA FAR Supplement 1842.705.

Code H Response to Recommendation 1: CONCUR

We concur with the intent of the recommendation, but not with the specific method recommended.

The report recommends that guidance be issued to contracting officers on participating in final rate negotiations. However, it is unclear from the audit report whether NASA is not being invited to attend negotiations where NASA has a major financial interest, or whether NASA contracting officers are choosing not to participate without supporting why NASA participation is not needed. If the former is the issue, the recommendation to invite NASA to participate in negotiations should be directed to DoD. Section 1842.705-1, which speaks to NASA participation, is predicated on NASA being invited to participate. FAR 42.705-1(b)(3) states that “Contracting offices having significant dollar interest shall be invited to participate in the negotiation and in the preliminary discussion of critical issues.”

In addition, it appears the audit report takes a very literal reading of NFS 1842.705-1, i.e., NASA would always participate in negotiations where it has a major financial interest. That was not what was intended. The intention was that NASA’s participation in a negotiation would be based on an evaluation of the issues involved and their potential impact to NASA.
For example, it would not make sense for NASA to participate in negotiations where it might have a significant financial interest with a contractor, but where the issues would not have a significant impact on the agency. NASA should not participate in negotiations just for the sake of participating when there is not a good reason to do so. Further, there could be cases where the contracting officer might have valid reasons for not participating in the negotiations. Those reasons should be communicated to the contracting officer for the cognizant agency (generally DoD).

Due to the fact that NFS 1842.705-1 can be interpreted in different ways, we will clarify that section. We believe this fix will address the intent of the recommendation. We also will discuss with the DCMA their role in this process in order to ensure that DoD ACO's are complying with the FAR.

**CORRECTIVE ACTION OFFICIAL:** Code HK/ Joe LeCren  
**CORRECTIVE ACTION CLOSURE OFFICIAL:** Code HK/ S. Thompson  
**PROJECTED CORRECTIVE ACTION CLOSURE DATE:** November 30, 2000

**OIG Recommendation 2:**

The Director, Goddard Space Flight Center, should monitor the effectiveness of the actions planned and taken to improve Goddard’s efforts (1) to close firm-fixed-price contracts within 6 months after receipt of evidence that the contract is physically completed and (2) to close contracts needing settlement of indirect cost rates within 36 months after receipt of evidence that the contract is physically completed as required by the FAR.

**GSFC Response to Recommendation 2:** CONCUR

As stated on Page 8 of the Draft Report, Goddard’s Center Director forwarded a plan on January 29, 1999 to the Associate Administrator for Earth Science to substantially reduce overaged Unliquidated Obligations, and therefore, decrease the closeout inventory. The actions outlined in this plan, will accomplish the objective of the OIG Recommendation No. 2. Specifically, Goddard has instituted the following measures to reduce and better manage overaged unliquidated obligations and closeouts:

- A monthly closeout inventory is provided to Procurement Managers to aid them in the management of their closeout activities.
- A task team was assembled to periodically assess our progress and evaluate improved methods to expedite the closeout process.
• Procurement professionals responsible for closeout activities now have a manual providing guidance on the documentation and steps necessary for the timely disposition of physically complete contract files.

• Goddard is evaluating the use of NASA’s Agency-wide closeout contract to assist with Goddard’s closeout activities.

• The Division Chief for Procurement Operations reports monthly during Goddard’s Executive Council and Headquarters Institutional General Management Status Review on the progress of unliquidated obligations and closeout activities.

As a result of the current activities listed above, GSFC considers this recommendation closed.
Appendix G. Report Distribution

National Aeronautics and Space Administration (NASA) Headquarters

A/Administrator
AI/Associate Deputy Administrator
B/Chief Financial Officer
B/Comptroller
BF/Director, Financial Management Division
G/General Counsel
H/Associate Administrator for Procurement
HK/Director, Contract Management Division
HS/Director, Program Operations Division
J/Associate Administrator for Management Systems
JM/Acting Director, Management Assessment Division
L/Associate Administrator for Legislative Affairs
M/Associate Administrator for Space Flight

NASA Centers

Director, Lyndon B. Johnson Space Center
Director, Marshall Space Flight Center
Director, John F. Kennedy Space Center
Chief Counsel, John F. Kennedy Space Center

Non-NASA Federal Organizations and Individuals

Assistant to the President for Science and Technology Policy
Deputy Associate Director, Energy and Science Division, Office of Management and Budget
Branch Chief, Science and Space Programs Branch, Energy and Science Division, Office of Management and Budget
Associate Director, National Security and International Affairs Division, Defense Acquisitions Issues, General Accounting Office
Professional Assistant, Senate Subcommittee on Science, Technology, and Space
Chairman and Ranking Minority Member – Congressional Committees and Subcommittees

Senate Committee on Appropriations
Senate Subcommittee on VA, HUD, and Independent Agencies
Senate Committee on Commerce, Science, and Transportation
Senate Subcommittee on Science, Technology, and Space
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on VA, HUD, and Independent Agencies
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology
House Subcommittee on National Security, Veterans Affairs, and International Relations
House Committee on Science
House Subcommittee on Space and Aeronautics, Committee on Science

Congressional Member

Honorable Pete Sessions, U.S. House of Representatives
The NASA Office of Inspector General has a continuing interest in improving the usefulness of our reports. We wish to make our reports responsive to our customers’ interests, consistent with our statutory responsibility. Could you help us by completing our reader survey? For your convenience, the questionnaire can be completed electronically through our homepage at http://www.hq.nasa.gov/office/oig/hq/audits.html or can be mailed to the Assistant Inspector General for Auditing; NASA Headquarters, Code W, Washington, DC 20546-0001.

**Report Title:** Audit of NASA Settlement of DCAA’s Incurred Cost Audits at Goddard Space Flight Center

**Report Number:**

**Report Date:**

*Circle the appropriate rating for the following statements.*

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>N/A</th>
</tr>
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<tbody>
<tr>
<td>1. The report was clear, readable, and logically organized.</td>
<td>5</td>
<td>4</td>
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<td>2. The report was concise and to the point.</td>
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<td>3. We effectively communicated the audit objectives, scope, and methodology.</td>
<td>5</td>
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<td>4. The report contained sufficient information to support the finding(s) in a balanced and objective manner.</td>
<td>5</td>
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*Overall, how would you rate the report?*

- Excellent
- Fair
- Very Good
- Poor
- Good

*If you have any additional comments or wish to elaborate on any of the above responses, please write them here. Use additional paper if necessary.*

________________________________________________________________________

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How did you use the report?

________________________________________________________________________
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How could we improve our report?

________________________________________________________________________
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________________________________________________________________________
________________________________________________________________________

How would you identify yourself? (Select one)

Congressional Staff    Media
NASA Employee          Public Interest
Private Citizen        Other: ________________________________

May we contact you about your comments?

Yes: ____________    No: ____________
Name: ____________________________________
Telephone: ________________________________

Thank you for your cooperation in completing this survey.
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Nancy C. Cipolla, Report Process Manager

Betty Weber, Operations Research Manager

Debra Schuerger, Program Assistant